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SUBJECT: YEMEN SEEKS TO JUMPSTART EITI

REF: SECSTATE 75118

Classified By: Ambassador Thomas C. Krajeski for reasons
1.4 (b) and (d)

¶1. (U) This cable addresses questions raised in reftel regarding Yemen's accession to the Extractive Industries Transparency Initiative (EITI).

¶2. (C) SUMMARY: To date, Yemen has fulfilled only one of four criteria for EITI membership: a high-level commitment to join. According to the ROYG Deputy Minister of International Cooperation and Planning (MOPIC), a national coordinator still has not been named and the ROYG is still forming a ministerial committee to address this issue and to develop an action plan. The Ministry of Oil is in the process of forming a two-person Secretariat/implementation unit and a nine-member committee and plans to publicly launch the EITI implementation plan in August 2007. The ROYG has requested technical assistance from the donor community in carrying out EITI implementation; DFID and the World Bank, among other donors, remain engaged with ROYG on this issue. ROYG transparency in the oil industry is a mixed bag. According to a USAID-commissioned report, the oil industry is more prone to corruption because of its share of the GDP, but there are efforts to monitor it. END SUMMARY

EITI STILL A PLAN IN PROGRESS

¶3. (C) In March 2007, President Ali Abdullah Saleh announced Yemen's intention to join EITI and sent a letter of intent to the EITI Secretariat. This was a departure from former Prime Minister Abdulqader Bajammal's alleged statement that Yemen would join EITI "over his dead body." In a June 11 meeting, Deputy MOPIC Minister Nabil Shaiban told Econoff that EITI was one of President Saleh's top priorities. This fulfills one of the four indicators for Yemen to be listed as an implementing country of EITI.

¶4. (C) However, Yemen has yet to fulfill the other three indicators: a) naming a national EITI coordinator; b) involving civil society in the implementation process; and c) devising an action plan. DFID representative Jeehan Abdul-Ghaffar reported that DFID sent the ROYG three separate letters reminding it of its EITI obligations on January 23, May 21, and June 10. The third letter was sent to President Saleh, the new Prime Minister and MOPIC Minister Abdul-Karim al-Arhabi. Nabil Shaiban noted that the ROYG Ministry of Oil and Minerals (MOM) would be the focal point for implementation of EITI, but he did not know who would be the national coordinator. Econoff contacted Ministry of Oil officials on June 12, who indicated that it has not named a National Coordinator, but Najeeb al-Sharafi, an Advisor to the Minister of Oil, will be responsible for the initial

stages of the program. Shaiban added that the ROYG is committed to working with civil society, but it needs to identify appropriate NGOs and assess their competency. Some possibilities include the Yemen Parliamentarians Against Corruption (YemenPAC), Transparency International, and resident oil companies.

15. (C) With respect to the action plan, Shaiban said that the ROYG is in the process of establishing an EITI implementation unit and has formed a ministerial committee responsible for overseeing the implementation of EITI, headed by Minister Arhabi. MOPIC will coordinate and facilitate EITI implementation within the ROYG and with development partners. Shaiban told Econoff that MOPIC will soon meet with the MOM to discuss the issue and to establish a timeline for the next four months on meeting the remaining three EITI indicators.

16. (C) Econoff met with Najeeb al-Sharafi at MOM on June 16, who said that the MOM would form a two-person Secretariat, which would serve as the EITI implementation unit. He said that the MOM would try to recruit personnel from within the MOM, but if they cannot find anybody, they would seek professionals from the outside. He said that the ROYG would also form a nine-person committee, composed of three ROYG officials (one from the Ministry of Finance, one from MOPIC and one from MOM), three representatives from oil companies, two representatives from civil society organizations and one representative from the newly-formed Anti-Corruption Board. Al-Sharafi informed Econoff that the ROYG will let civil society organizations decide whom they would like to represent them on the committee, but said that they will probably come from Yemeni human rights organizations. He added that MOM will also let oil companies decide which representatives to send to the committee. Al-Sharafi said that the ROYG would hold a major public event in August 2007 announcing EITI implementation, and would invite stakeholders, the media and members of the donor community. An action plan would be revealed at the event. (Note: Al-Sharafi said that the ROYG may use a draft action plan provided by the World Bank and have members of the committee comment and vote on it. End note).

ROYG REQUESTS AID
FOR IMPLEMENTATION

17. (C) Shaiban recommended that MOPIC convene a forum group consisting of the ROYG and key donors, including the United States, United Kingdom, World Bank and the EITI Secretariat, to discuss next steps and how assistance can be provided to Yemen for implementing EITI. He stressed that capacity would have to be built in the MOM, which is new to the EITI process, and this will take time. The public will also need to be educated about EITI, according to Shaiban, because they are ignorant of legislation and may perceive EITI "as an infringement on their financial books." Shaiban asked specifically if the EITI Secretariat can provide Yemen with guidance about what criteria should be included in the action plan. Al-Sharafi acknowledged that the World Bank will initially provide the ROYG with 15,000 USD to hire a reconciliation firm, but the ROYG would have to pay for the validation process. He is not sure where the ROYG will find funding for EITI implementation after the first year.

18. (C) The World Bank is working closely with the ROYG on implementation of EITI. In a June 10 telecon, WB Country Director Mustafa Rouis told Econoff that the WB sent an Aide-Memoire to the Minister of Oil on May 12, which outlined details of an EITI implementation support mission led by Anwar Ravat, on May 5-9. Ravat held discussions with MOM officials on the overall approach, the effort needed from the ROYG to implement EITI, and the WB's plan to provide technical assistance to MOM to take the EITI process forward. The Aide Memoire mentioned that the timeline for the ROYG to produce its first EITI report would be 12-15 months from May 12, 2007. When the EITI report is published, the ROYG would

fund and undergo an EITI Validation Process (managed by the EITI Board). According to the World Bank, the initial EITI implementation steps include: a) creation of a Secretariat within MOM to implement EITI; b) targeting to fulfill EITI sign-up indicators by August 31, 2007; c) convening an EITI stakeholder group, including relevant ROYG ministries, oil and gas companies, and civil society representatives; d) ensuring that there are no legal obstacles to participating in EITI; and e) holding an EITI "launch" workshop among the stakeholders to reach a common understanding on an EITI action plan. Shaiban expects the WB to provide consultants and training conferences on EITI. He noted that the WB has a special EITI trust fund for this purpose.

TRANSPARENCY IN YEMENI OIL INDUSTRY?

¶9. (C) ROYG officials and oil company executives across the board have praised current Minister of Oil and Minerals Khaled Baheh for his reform-mindedness, transparency and professionalism. (Note: Minister Baheh was a former Human Resources Manager for Canadian Nexen. End note). One oil company executive opined that "Baheh was the best thing that happened to the oil industry, he has an honest vision, his work ethic is beyond reproach, and he tries to work with the oil companies." MOM publishes statistics on the oil and gas industry on its website. Oil companies have been diligent in filing reports and stiffly penalizing the offering or acceptance of bribes.

¶10. (C) Despite this rosy picture, the ROYG is still plagued by transparency problems in the oil sector. For example, when the ROYG released its FY 2007 budget in February, the media accused it of underreporting oil revenues by 25 million barrels (i.e. USD 1.36 billion). The Central Bank of Yemen historically underreports oil revenues so that the ROYG has extra money to spend on supplemental budgets at the end of the year. There are elements within the ROYG that resist reform and are more prone to corruption, including Deputy Minister of Oil Alameh, who according to one source, "runs a mafia within the Ministry of Oil."

¶11. (SBU) A USAID-commissioned study entitled "Yemen Corruption Assessment," published in the Spring of 2007, noted that oil is the main source of state patronage (accounting for 80 percent of national revenues) and thus is vulnerable to corruption. However, oil is expected to dwindle over the next 10 years, leading to two possible strategies, either a) "to take while the takings are good," or b) "to encourage reform, especially concerning corruption, in order to encourage investment and economic growth."

¶12. (SBU) Preventing option A and promoting Option B would, according to the report, require a stronger role by Parliament and auditing institutions. The Parliament has oversight of the oil industry through its Oil Committee, which has been particularly active in investigating and in one case blocking a ROYG-sponsored international oil concession (Hunt Oil's concession on Block 18 of Ma'rib, which was transferred to the ROYG-owned Safer Corporation in 2005). The Central Organization of Control and Audit (COCA), however, which is the ROYG's supreme audit institution, is responsible for conducting financial audits and investigations of the Ministry of Oil, but has yet to make any reports public.

NEXT STEPS?

¶13. (C) Comment: The ROYG is eager to join EITI in order to attract more international investment to Yemen. Action taken on the EITI implementation front, however, has been limited. Since attending the Oslo Conference on EITI in October 2006, the ROYG has only recently formally announced its intention to join and has only fulfilled one of the four indicators for EITI membership. As is often the case with

new initiatives, we find that the ROYG's door is open to cooperation, but that they will need a great deal of technical assistance and donor support and prodding to make Yemen's full implementation of EITI a reality. End Comment.

KRAJESKI